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TO THE  
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OF THE  
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KHRUSHCHEV'S CHALLENGE

Distinguished guests, ladies and gentlemen. I've listened with deep attention to the remarks that our distinguished guests and neighbors have given us. I think I can take from their remarks that they realize that in facing any of these challenges, we're all in the same boat. We all approach them from the same angle and I feel sure that we'll all respond with the same effectiveness to these challenges. Mr. Canham has been very kind in his words of introduction; I sometimes wonder how much I know, Mr. Canham. I read the press, you know, and I take very seriously all that the press says and sometimes I don't get quite as good comments as you have given me but we're working hard and we're trying to improve and we're trying to pull no punches. In my remarks to you today I will try to present the facts as I see them. I won't tell you where I've got all this information from; some of it is from the press, but not all of it.

The subject for your meeting today, as your Chairman has indicated, is the "Dimensions of the International Peril Facing Us." I've felt that this was a particularly pertinent and timely subject. With your two and a half million members, I believe, but maybe since my last figures were obtained you've grown still more--still more? well, I will add to it in my next chance to address you, Mr. Donald, under your presidency possibly--but certainly your organization is in a key position to influence our nation's approach to international as well as domestic affairs and I welcome this chance to talk to this distinguished representation of your membership on this subject.

It is a timely subject to be considering today for the Soviet Union, through its very vocal leader, Mr. Khrushchev, is directly challenging the United States and the free world in the fields of industrial development and foreign trade as well as in military matters. It is to the former that I am going to particularly address myself. The other day, in one of his many extemporaneous speeches, he remarked, "To the slogan that says, 'let us arm', we reply--that is, Khrushchev and company--we reply with the slogan, 'let us trade'."

The economic challenge of the Soviet Union is a dual one. First, they are setting goals for their own domestic production to compete directly with our own and to quote their words, "to get ahead of us in the economic race." In the remarks he

made to our Ambassador the other day, if I can trust the New York-Times and I believe I can, he said, "Mr. Thompson, look out, we're on your tail." Mr. Thompson is our Ambassador in Moscow. The other phase of their challenge is through their foreign economic penetration program.

I shall briefly discuss these two challenges. But before doing so, I want to analyze a bit the developments in Russian policy over the last decade, but don't get worried, it's going to be only a page or two on this.

In the immediate post-war period, Stalin relied on military and paramilitary action and the military threat as the chief weapons for the advancement of Soviet aims.

It was with military force that the Soviet took over and established their control in the European Satellites and repressed the democratic forms of government which tried to find root there immediately after the war. It is with military occupation forces and the threat of the use of force that they still hold their position in Central Europe.

Then, as you will remember, going back some years--this is the time when George Allen was the Ambassador, I believe, in Iran that this took place--there was an attempt to take over in that country, and in Greece, and in Berlin. There again it was the force and the threat of force that was used in the attempt to break down the free world defenses. Through the Marshall

Plan and our growing military preparedness following their attempt to take over in Korea, this threat was contained in the West; but China was overrun, and for a time Korea was overrun, and Northern Vietnam went into the Communist bloc.

These and other military and subversive maneuvers alerted the free world over that period to the dangers of Stalin's policies. The countermeasures that were taken here and in other countries of the free world tended to make them counter-productive. As you will remember, Stalin was posthumously discredited by Khrushchev. His programs were generally repudiated by his successors and, as far as I can make out from reading behind the lines, they literally trembled at the risks Stalin had taken at a time when the Soviet Union had no atomic capability to match our own. At the same time we must remember that Khrushchev's ruthless repression of liberty, with the use of Soviet troops, should stand to us as a reminder that Stalinist tactics may at any time be revived if the Soviet Union feels that its vital interests are affected.

Today I feel that we face the somewhat subtler policies of Nikita Khrushchev. We have the question as to whether these policies will be more or less effective than the somewhat discredited policies of Stalin in promoting the aims of international Communism.

Now, of course, I do not want to discount in any way the seriousness of the Soviet military threat or its challenge in the scientific and technical fields on which our advanced weapons systems depend. And as I see it, under its present policies, the USSR does not intend to use its military power at this time in such a way as to risk general war. I believe that they have a very healthy respect for our retaliatory capabilities.

Furthermore, the Soviet success with Sputniks and in the field of ballistic missiles has well alerted us to the military dangers and our missile and our other programs, as you heard this morning from Mr. Holliday, are receiving great top priorities. But as he undoubtedly told you and as we all feel here, we must be forever watchful of the Soviet emphasis on the military applications of science and technology in order to anticipate any attempts at a breakthrough which could change the balance of military power. We greatly depend these days on our scientists and on our technicians in this field.

But barring such a possibility, it is most probably in my opinion that the fateful battles of the cold war will, in the foreseeable future, be fought in the economic and subversive fields. That's why I feel it is so important that our National Chamber of Commerce should give its attention to these matters.

To understand the seriousness of the Soviet economic threat, it is rather important I think to get some idea of the Soviet economic and industrial base because it is on that base that they develop their penetration and economic expansion techniques.

Going back as far as 1928, the Soviet Union, from then on, has been developing rapidly from a predominantly agricultural and industrially underdeveloped country to being the second largest economy in the world. Forced draft industrialization, emphasizing heavy industry, was carried out by Stalin to prevent, to quote his own words, another beating of backward Russia by the more economically advanced capitalist countries. Forced draft industrialization continues in Russia today, and now the emphasis is more positive: namely, to meet Khrushchev's goal of, "catching up and surpassing the United States in per capita production within the shortest possible historical period of time." We don't think he's going to do that very soon, but that's going to depend a lot on what you people do; probably much more on what you people do than on what government does. This theme--that is, of catching up to the United States industrially--is being used not only as internal propaganda but also to propagate the Soviet faith abroad.

Comparison of the economies of the United States and the USSR in terms of total production of goods and services does indicate that the Soviet is making rapid progress.

Whereas Soviet gross national product was about a third of our own in 1950, by 1956 it had increased to about 40 percent, and by 1962 it'll probably be about half of our own. We're still well ahead but it's important to keep that leadership. This means that the Soviet economy has been growing, and is expected to continue to grow through 1962, at a rate roughly twice that of the economy of the United States. Annual growth over-all has been running between six and seven percent, annual growth of industry, however, has been running at the rate of 10 to 12 percent.

These rates of growth are very high. They have rarely been matched except for brief periods in countries coming out of wartime conditions.

A dollar comparison of the USSR and the US gross national product in 1956 reveals that consumption--or what the Soviet consumer receives--was less than half of total production. It was over two-thirds in the United States. That's the great difference between the economies; they're really putting thier effort into the military sector, very largely--we, into the domestic sector. Investment, on the other hand, as a proportion of gross national product in the USSR, was significantly higher than in the United States. Furthermore, investment funds in the USSR were plowed back primarily into expansion of electric power.

the metallurgical base, and into the producer goods industries. In these fields, it was over 80 percent of actual US investment in 1956, and in 1958, will probably exceed our own. Defense expenditures, as a proportion of gross national product in the USSR, were very significantly higher than in the United States; in fact, we think it is about double that of the United States. That is, as a proportion of the national product, not absolutely.

Soviet industrial production in 1956 was about 40 percent as large as that of the United States. However, Soviet heavy industry was proportionately larger than this over-all average, and in some instances the output of specific industries already approached that of the United States. Output of coal was about 70 percent of ours, output of machine tools was about double our own and the steel output about half.

Since 1956, Soviet output has continued its rapid expansion. In the first quarter of '58, Soviet industrial production was 11 percent higher than a year ago. In comparison, the Federal Reserve Board index shows a decline of 11 percent in the United States.

According to available statistics, in the first quarter of '58, the Sino-Soviet Bloc has for the first time surpassed the United States in steel production. That is, the Sino-Soviet Bloc; figures with regard to the USSR alone turned out about 75 percent of the steel production of the United States. These

are pretty sobering statistics. I'm sorry to have burdened you with so many figures but in order to get the magnitude of the peril and the type of competition we have to face, it seemed important to do so.

A recession is an expensive luxury. I know you all feel that. Its effects are not confined to our own shores. Soviet propagandists have had a field day in recent months, pounding away at American enterprise.

Every Soviet speech, magazine article, or radio broadcast beamed to the underdeveloped nations plays up and, of course, exaggerates our economic problems. The uncommitted nations are being told by the Communists--"see, we told you so. Crises and unemployment are inevitable under capitalism. Communism is the only true word to social progress." Our economy is giving the Communists propaganda a target as damaging, and I trust, as transitory as their own Sputniks. When I say transitory that doesn't mean we should not prepare any day for the possibility of further developments in the Sputnik field; it's not safe to estimate that they've shot their last one into the air.

Continued Soviet industrial growth has had a counterpart in increased trade with the free world. Over the past two years, their trade with the West has been moving ahead far

more rapidly than it was with the Bloc itself. That is, for a long time they traded mostly with the Communist Bloc; now, they're expanding very greatly outside. About 70 percent of the USSR's increase in non-Bloc trade in 1957 was with the industrial nations of Western Europe and, under agreements such as that just recently concluded with Germany, are likely to expand still more.

Soviet capabilities to export petroleum and metals - aluminum, tin, zinc, and ferro-alloys - is increasing. The USSR is already a supplier in a few traditional Western metal markets. Over the years, the USSR may well become a major source of many such industrial necessities to Western Europe.

This seems particularly likely if Khrushchev is able to meet the pretty ambitious commodity goals that he has set for himself over the next ten or fifteen years.

Take, for example, petroleum. The Soviets have set the goal by 1972--I grant you that's a good ways off for some of us around the table here--the Soviets, by that time, plan to produce as much crude oil as we in the United States do today. Even allowing for substantial increases in domestic consumption, they could then export about 2 million barrels a day. Today, Western Europe consumes about 3 million barrels a day.

A start has already been made on a pipeline needed to bring the crude oil from the Ural-Volga basin to the Baltic.

Soviet ability to use trade as a weapon to advance its political aims will increase in a direct ratio as they succeed in realizing these economic goals I've mentioned.

For example, once they have penetrated Western European and other markets to the extent that these markets become substantially dependent on Soviet industrial raw materials, they will have available a new and a very formidable weapon for their economic warfare. Because then, by withholding supplies, by capriciously raising prices, or by dumping commodities, (the Soviets in effect will have a seat at the council table) of the great nations of the world, trading nations of the world.

During the Suez crises, we saw a brief glimpse of Soviet capabilities to grant or withhold economic favors through the forms of its own petroleum exports. The increase in sales of metals and petroleum to Free World countries, which moved sharply upward in 1958, is not an economic flash in the pan, in our opinion. It is a reflection of growing Soviet industrial capability.

Further, their government set up is well adapted to waging economic as well as political warfare. They have no budgetary controls when it comes to diverting funds to particularly urgent national policies. There need be no prior consultations with either parliaments or with the people.

This, briefly described, is the Soviet economic base, as we analyze it today. It is to this base that Moscow is adding its foreign economic penetration deals designed to wean to its camp the uncommitted and newly developing areas of the world.

It is important at the outset of our consideration of this phase of the subject to note that the grants are not limited to those countries where there is an early prospect of acceptance of Communist doctrine.

Of the \$2 billions and more of development and military aid extended by the Sino-Soviet Bloc over the past three years--and this is exclusive of intra-Bloc trade, this doesn't include anything that the Soviet sends to countries like Communist China, the European Satellites, and so forth--large sums, large amounts of this economic aid have gone to countries which are not now in the Soviet camp.

Let us get down to cases: In Egypt the communist party was outlawed at the time of the Bloc's original military aid <sup>back</sup> offers/in 1955. Despite repeated crackdowns on communist elements within the country since that time--in Egypt, that is--the USSR concluded a major \$175,000,000 economic aid program in 1957.

Communist influence in Syria has been reduced following its membership in the United Arab Republic in February of this

year--even to the point where Bakdash, the leading Arab communist, fled the country. But the USSR is going ahead with its \$170,000,000 economic aid program and continues to supply arms under agreements up to about \$100,000,000. The magnitude of this and other military programs raises the question as to who may be the eventual user of these arms.

The list of the examples could be extended. Afghanistan is a monarchy. The Imam of Yemen is an absolute ruler. But both of these countries are the recipients of large economic and military aid.

The Soviet Bloc economic penetration of the Yemen provides a striking instance of the use of trade and aid as an investment in disorder. I didn't know, Mr. Canham, that when I was speaking of Yemen it was going to get the front page of the papers today, but it got ahead of me a little bit.

Yemen is strategically located at the entrance to the Red Sea from the Gulf of Aden. It commands one entrance to all the Suez Canal traffic; the oil moving westward as well as goods moving from Europe to the East go by it.

Soviet overtures to Yemen were appealing to the ruler there because the Bloc was willing to supply him with arms, while the West would not. Arms in Yemeni hands on the scale contemplated can only create more trouble in the Middle East.

They will fan the Imam's dispute with the British and with local Sultanates over the borders of the Aden Protectorate.

The Soviets were quick to sense the opportunity to create disorder by giving aid to Yemen. They moved quickly. In less than two years, this small country of some four millions of people has been granted \$80 millions in credits, these are dollars not ruples. Additional offers of over \$20 millions are currently outstanding. Arms valued at \$30 millions have been delivered. A Soviet and Czech military mission of some 65 advisors is currently in Yemen for training and assistance.

Even the Red Chinese have joined in with an offer of a loan of \$15,000,000 to little Yemen. If all proposed projects are carried out, the Communists will play a key role in Yemen's economy as well as in its military development.

The Communists have no interest rate problems. They have no legislative restrictions. The USSR has developed an attractive package credit deal--long term loans, generally for 12 years; 2 1/2 percent interest rate; repayment in surplus commodities, and room for bargaining on prices and interest rates. They have devoted much effort to the native language training of the technicians they send along with their package deals.

Though the Communists eschew capitalist types of business organizations in their own country, they make liberal use of them abroad.

One of the most important of these is the Bank of China, Communist China. It is a primary source of funds to the 12,000,000 Chinese in Southeast Asia--the overseas Chinese, as we call them. These loans, controlled from Peiping, often require appropriate gestures of support to the Communist regime.

Branches of the Bank throughout the East promote the export and sale of Chinese Communist goods in the area. They also collect a vast store of economic and political information, both openly and by clandestine means.

In Paris, for its European business, the Soviets use a commercial bank called the Banque Commerciale pour l'Europe du Nord for Northern Europe. It often serves as the agent for effecting sales of Soviet gold in London and on the Continent and is the means through which Soviet credits are transferred to the Satellites. It also maintains a widespread system of correspondent relationships with banking institutions throughout Europe and even in this Hemisphere and is one of the chief instruments for the financing of Soviet trade with the West and for obtaining information on trade opportunities.

In America to the south of us, there are a number of communist fronts or associated organizations actively campaigning for closer commercial ties with the Bloc. In Brazil, one of these has been offering to import and to sell Russian automobiles

at ridiculously low prices. This deal did not materialize, it was rejected. It then offered to import a complete auto factory from the USSR. While these offers may not have been serious, they did have some propaganda value.

On a world-wide basis, the Soviet Union presents itself as eager to do business on terms attractive to the customer. You people have been hearing a bit about that problem, I think, here in the United States.

Moscow's foreign aid program has particular appeal in the undeveloped countries because Russia until so recently was an undeveloped country itself. For some reason the recently liberated countries seem to feel that the Kremlin has found a new and magic formula for quick industrialization which is the hallmark of becoming a modern state in many of these countries. That is, they think industrialization is the key to everything; we find that is not true but they still believe it. They recognize American economic and industrial leadership in the world but they feel that the democratic process of economic development may be too slow.

Soviet propaganda that it took the West 150 years to achieve industrially what the Soviet Union is building in a generation or so has a good deal of appeal to them. In the newly developing countries, the drive for economic betterment has become a crusade and one that is not always based on reason.

Also these countries feel that we in the United States are far ahead of them and that while they may aspire eventually to an economy that is something like that of the Soviet Union, they cannot, in the foreseeable future, reach the high living standards of the United States.

Factors such as these give a particular appeal to the overtures from the Soviet Union. They are not able to see the invisible strings which are tied in with Soviet offers nor do they understand the subtle implications of Soviet subversive penetration which is a part of every economic package.

Each time that I prepare a summary of any phase of Soviet activities, whether it be in their domestic industrial development, their foreign economic exploitation activities, or their military preparations, I am impressed by the efforts which the Soviet make to keep secret the details of their operations.

If their motives in the military, industrial and economic fields, are, as they claim, defensive, why should they keep them so secret? Why are we not entitled, before we accept their protestations regarding peaceful coexistence, to ask that there should be a franker disclosure of their activities--something comparable to the disclosure made in the free countries of the world through their presses every day?

For example, before their recent offer of a suspension of nuclear testing, the Soviets themselves had just completed

a series of nuclear tests, concentrating a greater number of tests in a short period of time than it's been practically ever known in history. Three tests occurred within a single two-day period in an unprecedented burst of activity in this field. This was done behind a cover of secrecy except for announcements that this Government, the United States Government, itself made. If these announcements hadn't been made, it would have never been known that they had been testing at all. But, by and large, their activities in nuclear testing remain quite unknown particularly in those countries which are being filled with Soviet propaganda against testing.

The nature of their military aid programs such as I have described above, by and large, have been kept as secret as the Soviet could manage to keep them. Naturally, an even tighter veil of secrecy is kept around most all phases of their military establishment.

The details of our own aid program, of our defense expenditures, military production, with very few exceptions, are available to the world through the press. In contrast, the Soviets release only the annual ruble totals of what they call defense spending.

It is our best estimate that the announced Soviet defense budget as published to the world actually covers little more than half of the rubles they are now putting into military activities.

As long as this secrecy remains a cardinal tenet of Soviet practice it is extremely difficult to accept the Soviet protestations of a desire for peaceful relations as expressing their real intentions.

It is true, and it is an encouraging sign, that through the good offices of the State Department exchanges of visits are being arranged, particularly in the cultural, technical and academic fields. This may well help to a better mutual understanding but that understanding will be very incomplete until it is broadened to a point where the barriers of secrecy are removed. It is this very secrecy which makes meaningful agreements so difficult to reach.

And I suggest that one answer to Khrushchev's challenge to us should be a renewed challenge to them, as in the President's open sky proposal, to put an end to secrecy which breeds suspicion and doubt.

Undoubtedly one of the reasons for secrecy is to hide from the world some of the problems that the Soviet Union faces. I've been giving you their strong points as well as a look at their weak points also.

In the analysis that I have given, I have stressed their very real achievements, their growing power, and their rapid rate of progress. These factors must not be underestimated, it's always dangerous to underestimate a situation of this

kind and we've done it too often. However, the realization of many of the goals they have set depends on resolving some very real obstacles to success which they face.

For example, Khrushchev has repeatedly promised his people startling improvements in the quality of their diet. The realization of these dreams rests on a precarious agricultural base. Crops over large areas, as we saw in 1957, are vulnerable to serious drought. Furthermore, Khrushchev has brought the anti-geneticist, Mr. Lysenko, back into favor. And more power to him because he is a theorist whose plant and breeding ideas are regarded as nonsense by all competent Western scientists.

They are now engaged in a massive reorganization of the control of their industry and this move toward decentralization as built-in, long-run dangers for any dictatorship such as that of the Kremlin today.

The myth of collective leadership has been abandoned and there are signs today of a reversal to a harsher line with consequences of a far-reaching nature. Khrushchev, despite his gregarious characteristics, as he now assumes new positions of power and eliminates his rivals, becomes more and more an isolated and lonely figure.

As they enter into the field of international trade on a major scale they also lack in the Soviet Union a convertible

currency. They must rely on the device of settling international balances in sterling or dollars. In essence, most of their trade must remain on something approaching a barter basis. The ruble is not an international currency and within wide ranges its value is a matter of speculation, varying from the official rate of 20¢ in the Soviet Union to a purchasing value we estimate of around 10¢, to a quoted value for ruble notes in the Swiss market of only a few cents. But, of course, this latter rate is due to the fact that ruble currency can neither be legally imported into the Soviet Union nor exported from it.

Possibly today the most acute problem facing Khrushchev is that of meeting the growing demand of the Russian consumer for a greater share in the over-all production of the Soviet Union. With a gross national product of around 40 percent of our own, they put into the military sector a national effort roughly comparable to our own, leaving only a modest share for consumer goods. That is, they are taking really--their military effort now out of the hide of their own people.

If the Kremlin responds to popular pressures, they will be forced to give more and more to the consumer. This trend has already started to some slight extent. The Russians have somewhat improved living standards over the last years and the national output of such consumer goods as TV sets and washing machines has been stepped up. Some former armament plants are now producing civilian goods.

All of this, particularly if it is increased, will help to develop a society where people will have more opportunity to satisfy the individual yearning for a fuller life. Economic betterment, added to the massive educational system they have already installed, may help--this is our fond hope--to build up a generation of people more and more inclined to question the basic tenets of the totalitarian philosophy and less willing to accept the autocratic forms of government under which they are living.

Under Khrushchev there has been, undoubtedly, some relaxation of the old Stalinist police system, but every two steps in advance in this sense seems to be followed by one step backward as they wrestle with the insoluble problem of reconciling measures of freedom with the stern line of communist doctrine and discipline. And we've seen recently that when the Yugoslavs stepped out of what they thought was the straight and narrow line of communist doctrine, Moscow attempted to punish them.

The fact that the leadership of the USSR faces these very real problems is, however, no excuse for complacency on our part. During and since the war, their leadership we must admit has faced serious problems and has surmounted them. The economy of the Soviet Union as I have indicated has great

momentum, it has versatility and, while I predict that their people will undoubtedly press for an improvement of their lot, some real concessions can be made to them without fundamentally altering the general tempo of their present industrial and military programs.

Certainly, gentlemen, we and our neighbors to the north and to the south and in the free world have the most serious challenge this country has faced in time of peace. As this challenge is very largely based on the economic and industrial growth of the Soviet Union, it is one which concerns very directly the business leaders of our country.

I have the greatest faith, gentlemen, that the Chambers of Commerce and the other industrial leaders of this country can meet these challenges but it is only by recognizing the existence of them, by properly analyzing them, by seizing time for the forelock, that we can rest assured this can be accomplished.

Thank you very much.